

Message Text

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TAGS: ECON, PINT, DA

SUBJECT: ECONOMICS AND POLITICS

SUMMARY: ECONOMICS TODAY HAS A KEY ROLE IN DENMARK'S
POLITICAL LIFE, PRIMARILY BECAUSE RESTRAINTS HAVING WIDE
PUBLIC IMPACT ARE NEEDED IF THE COUNTRY IS TO REGAIN A
LEVEL OF WELL BEING APPROXIMATING THAT OF THE AFFLUENT
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SIXTIES AND EARLY SEVENTIES. DISCUSSIONS ARE NOT TAKING

PLACE BETWEEN THE PRINCIPAL CENTER PARTIES, INCLUDING THE GOVERNING SOCIAL DEMOCRATS AND THE MAJOR OPPOSITION LIBERALS, THAT WILL DETERMINE WHETHER THEY CAN CONTINUE TO COMPROMISE AS THEY HAVE THE PAST YEAR OR WHETHER STALEMATES ON ECONOMIC ISSUES WILL FORCE ELECTIONS, POSSIBLY AS EARLY AS SEPTEMBER. THIS CABLE SEEKS TO PUT THAT SITUATION IN PERSPECTIVE. END SUMMARY.

1. JULY IS HIGH VACATION SEASON FOR THE DANES. MAKING THE MOST OF ABNORMALLY GOOD WEATHER, THEY GIVE LITTLE EVIDENCE OF BEING TROUBLED BY DOMESTIC PROBLEMS. NEVERTHELESS, FORCES ARE AT WORK WHICH MAY SHARPLY FOCUS THEIR ATTENTION COME AUGUST AND SEPTEMBER. THEIR POLITICAL LEADERS, MANY ON VACATION THEMSELVES, HAVE BEGUN A DIALOGUE ON WHAT TO DO ABOUT THE ECONOMY. WHILE THE PACE OF THESE TALKS HAS BEEN LEISURELY, THEY WILL INTENSIFY IN AUGUST, AND THEIR OUTCOME CAN HAVE MAJOR POLITICAL CONSEQUENCES IN THE FALL.

2. ECONOMICS IS, IN FACT, THE MAJOR SOURCE OF POLITICAL DIVISION IN TODAY'S DENMARK. WHILE THE MINORITY SOCIAL DEMOCRATS COULD FALL FROM POWER OVER ALMOST ANY ISSUE, THE MOST LIKELY MAKE-OR-BREAK MATTERS ARE ECONOMIC.

3. THE CURRENT IMPORTANCE OF ECONOMICS IN DENMARK STEMS FIRST FROM A SCARCITY OF OTHER ISSUES. MATTERS CONTENTIOUS IN THE PAST, SUCH AS EC PARTICIPATION, HAVE THROUGH COMPROMISE OR AGREEMENT TO DEPOLITICIZE BEEN LARGELY DEFUSED. A MORE IMPORTANT EXPLANATION OF THE ECONOMY'S PREEMINENCE IS THE FACT THAT IT HAS IN RECENT TIMES UNDERGONE A RADICAL, RECESSION-INDUCED CHANGE. THE EARLY AFFLUENCE OF THE SIXTIES AND EARLY SEVENTIES, WITH THEIR FULL EMPLOYMENT, BALANCED BUDGETS, MANAGEABLE BALANCE-OF-PAYMENTS DEFICITS, AND STEADY INCREASES IN WAGES, SOCIAL BENEFITS, AND PUBLIC WORKS, HAS DISAPPEARED. THE COUNTRY'S ECONOMIC GOAL IS NOW ONE OF RETAINING AS MANY OF THE BENEFITS OF THOSE EASIER DAYS AS POSSIBLE.

4. THE KEY TO SUCH RETENTION IS IMPROVEMENT OF EXPORT LIMITED OFFICIAL USE

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PERFORMANCE. THE FAILURE OF THE EXPORT SECTOR TO DO BETTER IS RESPONSIBLE FOR A LARGE PART OF DENMARK'S RECESSION-INDUCED BUT PERSISTING UNEMPLOYMENT. IT IS THE PAUCITY OF FOREIGN EXCHANGE EARNINGS THAT LIMITS THE GOVERNMENT'S FLEXIBILITY IN TUNING THE ECONOMY. GIVEN A HIGH DANISH PROPENSITY TO IMPORT, FOR EXAMPLE, THE GOVERNMENT CANNOT STIMULATE DEMAND WITHOUT RISKING PRESSURES ON ITS RESERVE POSITION. THE GOVERNMENT HAS

BEEN SUCCESSFUL THUS FAR IN BORROWING ABROAD TO COVER 1976 DEFICITS, BUT THE INTERNATIONAL MONEY MARKET IS BEGINNING TO ASK HOW LONG DENMARK CAN REMAIN A SOUND BORROWER.

5. JUST AS DANISH ECONOMIC WELL BEING IS LINKED TO EXPORT PERFORMANCE, THE KEY TO EXPORT PERFORMANCE IS WAGES. DANES HAVE NO CONTROL OVER THE PRICES OF THE IMPORTED RAW AND SEMIMANUFACTURED COMPONENTS THAT THEIR EXPORTS ARE BASED ON. PRODUCTIVITY GAINS ALONE ARE NOT ENOUGH TO GUARANTEE DANISH COMPETITIVENESS ABROAD. WAGES, HOWEVER, CAN BE INFLUENCED. THUS WHILE DANES MAY DIFFER ABOUT THE EXTENT TO WHICH WAGES CAN SAFELY RISE, THERE IS GENERAL AGREEMENT THAT RESTRAINT AND MODERATION THROUGHOUT THE ECONOMY ARE INESCAPABLE. AT A TIME OF SLUGGISH PERFORMANCE, IT IS RECOGNIZED THAT THE COUNTRY SIMPLY CANNOT AFFORD THE STEADY INCREASE IN WELFARE BENEFITS AND PUBLIC PROJECTS THAT CHARACTERIZED THE YEARS BEFORE RECESSION.

6. THE SHAPE OF THE ECONOMIC SITUATION AND THE BASIC REMEDIES REQUIRED ARE NOT DISPUTED BY THOSE PARTIES MOST LIKELY TO HAVE A HAND IN GOVERNING DENMARK IN THE FORESEEABLE FUTURE. THE SO-CALLED SEPTEMBER COMPROMISE PARTIES -- THE RULING SOCIAL DEMOCRATS AND A HANDFUL OF RIGHTIST AND CENTER PARTIES OF WHICH THE MOST IMPORTANT IS THE LIBERALS -- AGREED AS LONG AGO AS SEPTEMBER 1975 THAT RESTRAINT OF PUBLIC SPENDING AND WAGES AND AN EASING OF TAXES WERE NEEDED TO HELP RESTORE THE ECONOMY TO ITS FORMER HEALTH.

7. THERE IS STILL NO DISAGREEMENT ON THE FUNDAMENTALS. THE DIALOGUE AMONG THE SEPTEMBER COMPROMISE PARTIES
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HAS BEEN REOPENED MAINLY BECAUSE OF THE NATIONAL LABOR CONTRACT NEGOTIATIONS THAT BEGIN IN SEPTEMBER OF THIS YEAR AND WHICH MUST BE CONCLUDED BY MARCH OF 1977. THESE CONTRACTS SET THE BASIC WAGE PATTERN FOR THE TWO ENSUING YEARS.

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8. THE SUBJECT OF THE DIALOGUE NOW AND THROUGH AUGUST, AND POSSIBLY BEYOND, IS AN INCOMES POLICY. THE SOCIAL DEMOCRATS GO ALONG WITH THE IDEA OF CONTINUED WAGE RESTRAINTS BUT DO NOT WANT THE BURDEN OF AUSTERITY TO FALL ONLY ON THE WORKERS, I.E., THE MAINSTAY OF THE SOCIAL DEMOCRATS.

9. THE SOCIAL DEMOCRATS REASON THAT THE AUSTERITY
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MEASURES ENVISAGED -- RESTRAINTS ON WAGES, PUBLIC PROJECTS, AND WELFARE -- AFFECT THEIR CONSTITUENCY MOST, AND THEY SAY THEY WANT EVIDENCE OF SACRIFICE FROM THE OTHER SIDE. THEY REJECT LIMITATIONS ON PROFITS ALONE

AS INADEQUATE AND INEFFECTUAL.

10. CASTING ABOUT FOR A POLICY THAT WOULD DEMONSTRATE THE SOCIAL DEMOCRATS CONTINUING CONCERN FOR LABOR, THAT PARTY'S LEADERSHIP HAS AGAIN TURNED TOWARD "ECONOMIC DEMOCRACY," THE IDEA OF WHICH IS TO INCREASE WORKER OWNERSHIP OF NOW PRIVATE ENTERPRISES AND WIN A GREATER WORKER SHARE OF PROFITS. (SEE COPENHAGEN 2930 OF OCTOBER 7, 1975).

11. THE ISSUE OF ECONOMIC DEMOCRACY, PERHPAS MORE THAN ANY OTHER, RAISES THE QUESTION OF WHETHER THE SEPTEMBER 1975 COMPROMISE WILL BE RENEWED OR WHETHER IT WILL COLLAPSE AND ELECTIONS INSUE. WHILE NEARLY EVERYONE CONCEDES THAT THE SITUATION IS TOUCH AND GO, EXPORT OPINION IS DIVIDED ON THE OUTCOME.

12. THOSE WHO BELIEVE THAT THERE WILL BE NO ELECTIONS SAY THAT THE LOGIC OF THE SITUATION IS AGAINST ELECTIONS. THE PARTIES CONCERNED HAVE WITH GOOD REASON CONSISTENTLY ANNOUNCED THAT THEY DO NOT WANT THEM. FOR EXAMPLE, IN THE SHORT RUN AT LEAST, THE DIVISIVE ECONOMIC ISSUES ARE NARROW INASMUCH AS THE PARTIES AGREE ON THE FUNDAMENTAL NATURE OF THE ECONOMIC SIUTATION AND THE KING OF MEASURES NEEDED. EVEN MORE IMPORTANT, THE ELECTIONS ARE NOT LIKELY TO PRODUCE MUCH OF A CHANGE IN THE UNDERLYING POLITICAL CONFIGURATION. RECENT OPINION POLLS HAVE INDICATED THAT THE SOCIAL DEMOCRATS MIGHT BETTER THEIR POSITION IN PARLIAMENT BY A FEW SEATS. IF TRUE, SUCH GAINS COULD HELP THEM PSYCHOLOGICALLY IN TAKING TOUGHER DECISIONS, PROVIDED THEY REMAIN THE GOVERNING PARTY. ON THE OTHER HAND, ELECTIONS ARE A RISK TO THE SOCIAL DEMOCRATS' HOLD ON GOVERNMENT. THERE IS NO GUARANTEE THAT THEY WOULD IMPROVE THEIR PARLIAMENTARY POSITION, AND EVEN IF THEY DID, THEY WOULD STILL BE AT THE MERCY OF A MAJORITY.

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13. THE LIBERALS, ON THE OTHER HAND, ARE NOT LIKELY TO BETTER THEMSELVES AT THE POLLS. THE LIBERALS, THE ARGUMENT RUNS, HAVE MORE LEVERAGE NOW AGAINST A SOCIAL DEMOCRATIC GOVERNMENT WHICH LIKES POWER AND IS NOT EAGER TO RISK ITS FATE IN AN ELECTION.

14. IN THE FINAL ANALYSIS, HOWEVER, IT IS NOT THE LOGIC OF THE SITUATION THAT WILL DETERMINE WHETHER OR NOT FALL ELECTIONS WILL BE HELD. THAT OUTCOME WILL DEPEND ON THE ABILITY OF THE PARTIES TO COMPROMISE ON ISSUES LIKE ECONOMIC DEMOCRACY AND TO AVOID EMOTIONAL CONFLICTS

THAT WOULD LEAD THEM INTO STALEMATES AGAINST THEIR BETTER JUDGMENTS. THE RIGHTIST PARTIES, FOR EXAMPLE, ARE NOT ABOUT TO MAJE MAJOR CONCESSIONS ON ECONOMIC DEMOCRACY TO A RELATIVELY WEAK SOCIAL DEMOCRATIC GOVERNMENT. IF THE LATTER WERE TO PUSH TOO HARD ON THIS ISSUE, ELECTIONS COULD VERY WELL EVENTUATE.

15. AS SEEN IN THE FOREGOING DISCUSSION, THE ECONOMIC ISSUES THAT DIVIDE THE PARTIES IN THE SHORT RUN ARE LARGELY TACTICAL. KNOWING THAT MEDICINE MUST BE ADMINISTERED, THE PARTIES ARE JOCKEYING TO SEE WHO WILL BEAR THE BRUNT WITH THE ELECTORATE FOR DOING SO. ECONOMIC ISSUES ARE MORE FUNDAMENTALLY DIVISIVE IN THE LONG RUN THAN IN THE SHORT RUN, WITH THE DIVIDING POINT BEING STATUS QUM VS. CHANGE. THE RIGHTIST PARTIES IN THE SEPTEMBER COMPROMISE REPRESENT THE STATUS QUO AND ARE COMMITTED TO CONTINUING PRIVATE OWENERSHIP OF INDUSTRY. THEY DO NOT, HOWEVER, ENVISAGE A MAJOR ROLLBACK OF EXISTING WELFARE ARRANGMENTS. THE SOCIAL DEMOCRATS, ON THE OTHER HAND, WANT GRADUAL CHANGE, PARTICULARLY AN INCREASE OF LABOR CONTROL OVER INDUSTRY. GIVEN AN EVEN BALANCE OF POLITICAL FORCES IN DENMARK AND THE DANISH ABILITY TO COMPROMISE AND ADJUST, THE COUNTRY IS LIKELY TO REMAIN FUNDAMENTALLY STABLE DESPITE SURFACE CLASHES GENERATED BY ECONOMIC ISSUES.
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